

***New Jersey State Health Benefits Commission  
September 5, 2006 Meeting***

***State Health Benefits Program (SHBP)***

***Recommended Plan Year 2007 Rate Renewal for Active  
Employees and Retirees of the State Group***

- For Plan Year 2007 for the SHBP medical program (NJ PLUS, Traditional Plan, and Rx), Aon recommends an average premium rate increase of 5.3% for State Active Employees and an average premium rate decrease of 1.2% for State Retirees, broken down as follows:

	<u>Actives</u>	<u>Early Retirees</u>	<u>Medicare-Eligible Retirees</u>
NJ PLUS	7.6%	-6.7%	-0.2%
Traditional Plan	21.6%	0.2%	1.9%
Rx	-4.2%	n/a	n/a

- The recommended rate renewal assumes:
  - Increase in office visit copays from \$5 to \$10 for Retirees in NJ PLUS (State Employee copays are already \$10),
  - Scheduled increases in the Brand Rx copays and the OOP maximum for Retirees, and
  - Duplication of coverage under the SHBP will not be permitted in Plan Year 2007.
- Since the implementation of Mandatory Generics and Mandatory Mail-Order Service has been deferred, the cost projections and rates shown in the renewal report do not reflect any impact from Mandatory Generics or Mandatory Mail-Order Service.
- NJ PLUS capitation charges for MH/SA have exceeded actual claim experience for several years. For Plan Year 2006, Horizon/Magellan agreed to a risk-share arrangement which shares the savings if actual claims are lower than the capitation, but does not charge the SHBP if claims exceed the capitation. For Plan Year 2007, the MH/SA capitation is increasing 3.4%. Horizon/Magellan is only willing to continue the current risk share if the SHBP agrees to share the risk in both directions. Aon recommends that the SHBP not agree to this, and

therefore the risk-share arrangement should be discontinued for Plan Year 2007 and MH/SA claims should be paid on a fee-for-service basis rather than capitation.

- Traditional Plan enrollment continues to decrease for State Active Employees. Plans with decreasing enrollment tend to experience higher trend, since they do not have younger, healthier new entrants to offset the impact of an aging population. The average age of Traditional Plan Active Employee participants is now more than 12 years older than NJ PLUS Active Employee participants.
- The recommended State Active Employee renewal increases result in Plan Year 2007 Traditional Plan premium rates that are approximately double the Plan Year 2007 NJ PLUS premium rates. The Traditional Plan continues in an upward assessment spiral. Since State Employees pay 25% of the premium for the Traditional Plan and 0% of the premium for NJ PLUS, it is expected that Traditional Plan enrollment will continue to decrease in Plan Year 2007, as a result of the recommended 21.6% premium rate increase.
- Aon recommends that the State Health Benefits Commission consider changes in benefit plan design and contribution formulas for the SHBP. Consideration should be given to replacing NJ PLUS and the Traditional Plan with a PPO, which would eliminate current differentials in health status between NJ PLUS and the Traditional Plan and move Traditional Plan employees into a plan with better provider discounts and more managed-care protocols. At the same time, employee contributions should be revised to control the health status selection problems that currently exist among benefit options.
- The recommended Plan Year 2007 premium rate adjustments for Medicare-Eligible Retirees reflect the anticipated impact of the Medicare Part D Retiree Drug Subsidy (\$688 per Medicare-Eligible individual).